







OSMANIA UNIVERSITY LIBRARY

Call No.

330.954  
S 52 E

Accession No.

22279

Author

K. T. Shah

Title

The Economic Back Ground

This book should be returned on or before the date  
last marked below.

---



OXFORD PAMPHLETS ON INDIAN AFFAIRS

No. 3—DOUBLE PAMPHLET

---

# THE ECONOMIC BACKGROUND

BY

K. T. SHAH

P. J. THOMAS

J. C. KUMARAPPA

SIR DATAR SINGH

SIR JEHANGIR COYAJEE



HUMPHREY MILFORD  
OXFORD UNIVERSITY PRESS

## By K. T. SHAH

ECONOMIC factors condition and influence materially the entire life of the community. The background here sketched necessarily concerns itself with factors and conditions as they are, or have come to be. A brief note is inserted, however, wherever forces are known to be at work which are likely to affect and alter the situation radically. Every endeavour is made, at the same time, to avoid wishful thinking, or giving undue importance to changes that are calculated to bring about a more desirable state of affairs.

In considering the outlines of India's economic background, attention must be paid to the following factors:

- (a) Production of material commodities, or new wealth, and services not embodied in such commodities, from Agriculture, Forests, Mines and Industries; including Consumption Goods.
- (b) Distribution of that wealth, including an estimate of *per capita* income, standard of living, or the distribution of the national dividend among the several categories of the population.  
The problem of Population overlaps both (a) and (b).
- (c) Trade, Internal as well as Foreign, as being the hinge, the pivot, the lever of the entire economic system, conditioning both the production and the distribution of the new wealth of the community, together with its accessories of Transport, and Banking with Currency and Credit.
- (d) Public (Central, Provincial or Local Government) activity, being the chief agency to modify or recast the background.

# THE ECONOMIC BACKGROUND

## I. Production

There has been no official or authoritative information regarding the volume and value of the aggregate agricultural production in India. Non-official estimates have been made by individual economists. But they lack in sufficiency of data, and involve an element of guesswork which necessarily detracts from their reliability.

Money value, moreover, the common denominator of all such estimates, is by its nature misleading. Volume or quantity figures, on the other hand, are undependable, because of the constant changes in them due to climatic reasons.

For practical purposes, however, the following estimate<sup>1</sup> of the value of primary production may be taken to give a fair picture:

	<i>In millions of rupees</i>
Value of Agricultural output	... 5,927
„ Livestock products	... 2,683
„ Fishing and Hunting	... 120
„ Forests produce ...	... 92
	<hr/>
Total Primary Production	... 8,822

The writer estimates the aggregate wealth produced in British India, in 1931-2, at Rs. 1,689 crores, with a margin of variation of 6 per cent on either side. Primary production thus contributes a little over 52 per cent of the total national income of India.

The year 1931-2 marked the depth of the world depression, when agricultural prices were at their lowest.

<sup>1</sup> See *The National Income of British India, 1931-32*, by Dr V. K. R. V. Rao.



## K. T. SHAH

For a 'country of the size and resources of India this is very small production. Though the estimate relates to a period ten years ago, and though prices have improved in the meanwhile appreciably, the real situation does not show any improvement worth considering. For one thing, the population of British India increased in the decennium 1931-41 by four crores, or nearly 15 per cent; while in many of the leading commodities produced in India, the quantity has actually declined.<sup>1</sup>

There are several explanations of these variations on the downward grade. The material point for present consideration is: that there is no evidence of a steady and continuous improvement, indicating a corresponding betterment in the people's standard of living.

This is due to the fact that the Indian agriculturist suffers from a number of handicaps, almost every one of which is capable of effective remedy. But the remedies hitherto considered and applied are either mere palliatives; or they cannot touch even the surface of things, for fear the very roots may have to be torn up. The unwillingness to consider radical remedies is unavoidable in the present system of government, since the foreign ruler must needs seek, for his own maintenance, the support of the vocal and influential elements in the population. The evil, therefore, goes on perpetrating itself, and accumulating like a snowball.

India has some initial, natural advantages, which make her potentiality so strong that competent observers have declared her capable of producing anything needed for the wants of man. Her land is vast; her climate equable; her

<sup>1</sup> *Statistical Abstract for British India, 1929-30 to 1938-39*, p. 506; and *Indian Year Book, 1941-42*, pp. 348-50.

## THE ECONOMIC BACKGROUND

soil rich; her people simple, honest, industrious. But these advantages are more than counterbalanced by the handicaps they suffer from. And that is why the return from her most considerable source of new wealth is, in comparison to the corresponding return in other countries, low and uneconomical.<sup>1</sup>

This shows not only the initially low per-unit yield in India: it also shows that, while in other countries forces are at work which bring about a steady improvement in the unit yield, in India there seems to be no effort to improve the outturn per unit. The example of Russia may be mentioned to show that, in less than 15 years, the U.S.S.R. has raised the aggregate as well as the unit yield in almost every one of her principal crops by 100 per cent and more. The inherent possibilities of India are in no way inferior to those of Russia.

Considering, on merits, the several handicaps from which the Indian agricultural producer suffers, it is difficult to find a single instance where, given the will to improve, human science and ingenuity cannot overcome these obstacles to the material progress of India.

The chief handicaps of the Indian agriculturist may be classified under two main heads—those imposed by nature, and those made by man.

In the former group may be included the uncertainty, irregularity, or uneven distribution of rainfall; the havoc of floods, locusts, or other pests; the comparative poverty of

<sup>1</sup> While Germany produced 22·6 quintals of wheat per hectare and the United Kingdom 20·6, India produced only 7. While Italy produced 51·2 quintals of rice per hectare, U.S.S.R 16·6, U.S.A. 24·5, China 25·1, India produced only 13·9. Her production of cotton is about a third per unit of the U.S.A.

## K. T. SHAH

soils in some regions; their unsuitability for certain crops; or their exhaustion by incessant cultivation.

In the second category are comprised the poverty and ignorance of the cultivator; the host of burdens imposed upon him by the state, the landlord and the moneylender; the laws of inheritance, and the consequent morcellement and fragmentation of land; the lack of organization for marketing his produce; the inattention to connected or subsidiary industries; the burdens of private debt, etc.

Not one of these is it impossible to remedy effectively and finally to eliminate. The only lack is an effective desire to ameliorate the agriculturist's standard of living.

The vagaries of rainfall are no new phenomenon in India. Thousands of years ago, the Indian authorities were alive to this factor, and endeavoured to provide against it. Well- and tank-irrigation was and is considered to be among the simplest acts of self-insurance, which the poorest of cultivators seeks to provide on his holding.

The other similar handicaps—visitation by floods, pests, or earthquakes, poverty of the soil, or its unsuitability for certain types of crops, or its exhaustion by excessive and wasteful cultivation—are all capable of being similarly remedied, or insured against.

When every allowance is made, however, the basic fact remains that Indian agriculture is nowhere near so productive as its intrinsic advantages of soil and climate should require. *A fortiori*, there is still less sign of any steady improvement in the yield per unit of the principal competing crops, as in other countries. Some of this may be due to those man-made handicaps on primary production, which could be easily remedied, if only the powers that be in the land were alive to

## THE ECONOMIC BACKGROUND

their immediate duty, and their responsibility to the people they rule.

The most considerable of these man-made handicaps is the evil of land-morcellement and fragmentation. The average holding varies from 2 to 12 acres in the several provinces. Originally due to the prevailing law of inheritance, which distributes equally among the male heirs of a deceased landholder the parcel of land held by him, other complications have entered into the system which have made the evil ten times worse. The average holding, moreover, has no reference to the normal, standard, or economic unit, sufficient, either to maintain a given number of persons; or, alternatively, to provide adequate occupation to the labour and capital necessary for cultivating it.

A few half-hearted attempts have been made, it must be recognized, to effect a measure of consolidation of holdings. But the principle governing all such attempts is vitiated at the very root, as the rights of property, however uneconomical and unsocial, are assumed to be sacrosanct. Without a comprehensive, compulsory scheme of consolidation into proper economic units, with scientific cultivation and collective marketing, there seems to be no possibility of Indian agriculture meeting effectively the burden of increasing population.

There is, in the foregoing, no reference to industries associated or connected with agriculture. Animal husbandry, for instance, is at its lowest in India, notwithstanding the largest number of cattle. The improvements in the breed and the yield of cattle, their feed and care, the fullest utilization of their by-products while alive or dead, have hardly yet engaged serious attention. Potentialities of immense new wealth from dairy industries and the by-products of milk, blood, bones,

## K. T. SHAH

hair, etc. are all but unrealized. Isolated, individual efforts in these fields have succeeded already sufficiently to warrant the statement that the cattle industry, in all its connexions and potentialities, properly developed, would add at least an amount equal to the present wealth derived from that source.

### *Industrialization*

The same tale must be told of the state of industry in India and its potentialities. India, with her teeming millions, has been too good a market, despite the poverty of the people, not to be appreciated as a dumping-ground for the manufactures of advanced industrial nations. Competing Indian industry, on a modern mechanized basis, would obviously make it hard to maintain this market as a pocket borough. It was, therefore, the consistent policy of the British in India to insist upon absolute freedom of trade, which, in practice, spelt deliberate disregard of her industrial possibilities.

Mechanized, large-scale, modern industry made its appearance here two generations after the advent of the Industrial Revolution in the West. In the beginning, however, such industry was Indian only in the sense that Indians, at least on the West coast, provided some capital, the lowest class of labour, and that it was located in India. It was operated mainly by non-Indian interests. No substantial accretion could, therefore, be expected from such industries to the wealth of India.

The real possibilities of industrialization in India were first perceived in the course of World War No. 1. Britain, India's main source of manufactured products, was shut out by unrestricted submarine attacks. And her own war needs demanded the development of India's local material to the

## THE ECONOMIC BACKGROUND

utmost. A Royal Commission on Industries in India revealed these potentialities authoritatively, and made recommendations for developing them, which had, however, to await the end of the war before being taken in hand.

Meanwhile, the financial exigencies of the war led to changes in the fiscal system, which could not but have indirect repercussions on the entire question of state aid or protection to local industry. Four years after the war, a Fiscal Commission recommended, and the Legislature resolved upon, a policy of 'discriminating protection'. The convention of India's fiscal autonomy, under certain conditions, was also adopted about this time. Industry after industry was examined in the light of the principles laid down; and in several cases some measure of conditional protection was given for a specified time.

The industries thus protected have more than justified the new policy. The present war has, similarly, been responsible for further expansion or extension, which may not prove abiding, if the factors, besides the war, leading to their birth and growth are not carefully attended to.

While recognizing this change, even today only a fraction of India's natural advantages for industrialization are being utilized. India still lacks many of the key industries, without which her economic structure must needs be vulnerable. Several minerals, heavy chemicals, forests produce and processing industries; transport industries, like automobiles, aircraft, locomotives, ship-building, are either yet unknown, or in their merest infancy. Industries connected with munitions or armaments, their accessories and subsidiaries, or even such essentials of modern industrialization as plant- and machine-making, power-generation, etc. are hardly yet in gestation.

## K. T. SHAH

If these industries were taken in hand for intensive and rapid development, they would not lack either for raw materials, labour, capital, or market. Unskilled labour is superabundant. In this age of automatic machinery, the problem of skilled labour is, as Ford says, a matter of time. All the necessary skill can be readily learned at home, or abroad, if only there is a definite resolve and plan. Capital, too, will not be lacking, notwithstanding the legend of the shyness of Indian capital. The experience of more than one new, or expanded, industry; the operations on more than one stock exchange; the presence of crores of deposits in the Reserve, Imperial, the Postal Savings and other banks; and the spectacle of accumulating sterling balances—all go to prove that there is absolutely no lack of the necessary capital, if only a determined policy of industrial development is pursued.

It is, indeed, a curious commentary upon the outlook and policy of those in authority in this country that the repatriation of the sterling debt, for which the accumulated sterling balances have been used, should have been so widely welcomed. This debt admittedly carried a low rate of interest. Its conversion into rupee debt will not lessen materially the burden of interest. The only saving is in the cost of sterling transfers. On the other hand, it has involved an expansion of paper currency, and consequent reaction on the price level, which will have its own nemesis. This amount could have been more profitably utilized for supplying capital equipment needed for existing or new industries. The gain to the country from such a course would have been ten, twenty, or fifty per cent profit. What is a three per cent debt against such accession to the wealth of the country?

## THE ECONOMIC BACKGROUND

The value of industrial production in India is difficult to estimate in monetary terms, and, *a fortiori*, its potentiality. The author of *The National Income of British India, 1931-32*, makes an indirect attempt at this estimate. If one reads his conclusions correctly, the figure may be placed at about 400 crores per annum. Since 1931-2, industry has unquestionably expanded in volume. Equally evidently, the price level has also risen. But, granting all that, the fact still remains that India's industrial potentiality is realized only up to a small fraction. Considering her resources of raw materials, now exported for lack of adequate local industries, labour, capital and market, there is every reason to hold that, with a proper plan of all-round development, the net contribution of industry to the annual wealth of the country would at least equal the income from primary production.

### II. Distribution

With such potentiality of production, the country still remains very poor. No systematic and authoritative attempt has been made in recent years to give a proper picture of the distribution of India's national dividend. The unofficial estimates of the annual *per capita* income of the country vary considerably. The latest estimate of the kind puts the *per capita* income in 1931-2 at Rs. 62 per annum. The present writer made a similar investigation for the average of 1900-1 to 1920-1, which yielded a gross income of Rs. 74 per annum *per capita*.<sup>1</sup>

But these figures do not give any idea of the actual share received by each individual, and its relation to his needs. The present writer estimated the distribution of the national

*Wealth and Taxable Capacity of India*, by K. T. Shah and K. J. Khambatta.



## K. T. SHAH

wealth to be such that, if we had Rs. 100 of this wealth to distribute among 100 individuals,

Rs. 33 will go to 1 member of the capitalist and landlord class;

Rs. 33 will go to 33 middle-class men; and the balance of Rs. 34 will go to 66 working-men.

Thus two-thirds of the community get per head half the average income; while 1% enjoy more than a third of the national wealth. The same thing, stated in terms of the standard of living, shows that the bulk of the population can get hardly one meal a day, and that, too, of the coarsest and poorest. Against an average human need of 3,600 calories an average Indian can scarcely get 600! And that, too, without regard to any other needs of human existence, and any other needs of civilized life.

The mass of humanity in India thus habitually live below the level of subsistence. In regard to the amenities of life, their position is hardly superior to that of the wild beasts of the jungle. The root cause lies not so much in the steadily increasing population in India, as in the lack of development of the country's inherent resources of agriculture and industry.

That does not mean that India's population problem can be ignored. Census after census has revealed a growth in numbers, notwithstanding famines, plagues, epidemics, or war. This problem is, however, too complex to be considered, even in outline, in this sketch. We need only add that the problem is not confined to securing adequate food-supply for this increasing population; or even its employment. It is also a problem of quality; of redistribution within the country as well as outside; and of its adjustment to the new conditions of life.

## THE ECONOMIC BACKGROUND

With or without a solution of this problem, a recasting of the system of distribution is unavoidable. India can never take her proper place in the roll of nations with such an ill-fed, unclad, ignorant mass of humanity, scarcely above the level of brutes in living conditions. To recondition distribution a radical revision of the laws of property, its accumulation and transmission, is unavoidable. Hand in hand must also go the review of the motive force in economic activity. The cash nexus, the only motive today, is accountable for such perversion and degradation that, without its abolition, there can be no hope for a sane economic system or a just social order.

### III. Trade

The principal link for effecting distribution, or bringing about the consumption of the material wealth produced, is trade. The predominant characteristics of India's trade, both internal and foreign, remain substantially the same as they were when the present writer described them in *Trade, Tariffs and Transport in India* in 1924. Necessarily the internal is more considerable than the overseas trade. Their relative proportions are, however, difficult to estimate through lack of official statistics. If we take India's aggregate production, under present conditions, at about Rs. 2,500 crores, and consider that it changes hands only once from the producer to the consumer, it would be nearly ten times as important as the overseas trade. The weekly average of cheques cleared in the Bombay bankers' clearing-house is over 15 crores; and for every rupee's transaction settled by cheques, there is at least a ten-rupees' transaction settled in cash. Bombay, again, is not the only clearing-house in India. The aggregate

## K. T. SHAH

of retail and wholesale trade transactions cannot, therefore, be less than Rs. 10,000 crores per annum.

The facilities and organization, however, of conducting the internal trade have never been designed to meet its requirements. In working the currency, the banking, the transport, terminal and insurance facilities, the requirements of internal trade are completely subordinated to those of foreign trade. A considerable amount of unnecessary movement of goods, involving an unnecessary use of transport service, makes the internal trade needlessly burdened. The intervention, again, of a series of middlemen, each levying his own commission, and the incidence of central or local taxation, all load and handicap the primary producer and internal trade.

The main features of the foreign trade of India are that she exports more than imports; that her exports consist largely of foodstuffs and raw materials, while her imports consist predominantly of manufactured and semi-manufactured articles; that the balance of trade is generally in her favour, and is set off to a very substantial degree by the necessity to pay for the 'home charges' reckoned as invisible imports; and the surplus still remaining due to us used, before the world depression of 1930, to be paid in specie, gold or silver. The expansion or establishment of industries in India, and the consequent consumption of India's raw materials for those industries, has led to a slight modification in the last twenty years in the volume and contents of India's foreign trade.

The direction of this trade, or the relative importance of the customers, has also undergone some change in the last generation. But even now Britain remains the largest single customer of India, both as regards imports and exports; and

## THE ECONOMIC BACKGROUND

the trade policy has been determined largely with regard to the economic advantage of Britain rather than of India.

The Governmental necessity to make considerable payments in sterling regularly has made the Indian currency system minister, not so much to the requirements of our internal economic system, as to the needs of our Government, and of foreign trade. It is impossible to detail the historical vagaries of the Indian currency system. But the note must be added that Indian public opinion even now regards it as based on uneconomical foundations, unsuitable to the needs of India's national economy.

The reform of the currency and banking system of the country is impossible, unless and until it is related to the requirements of the country's economic system. The needs of local industry and trade must be preferred to the exigencies of Government remittances abroad. The establishment of the Reserve Bank, and the central control of India's credit mechanism through that institution, is a step in the right direction, if only its vital link is steadily maintained with the industrial and commercial needs of the country.

### IV. State Activity to Remould the Economic Background

This sketch of the background has referred, again and again, to the need of effecting some change if a progressive betterment is desired. The only agency for such a change is the state, as the organized embodiment of the community. The Government is the executive expression of the state. Unless and until that organ is recast fundamentally, with a new outlook and new technique, no radical change can be effected, no substantial improvement hoped for. The main activity of our Government today is to collect taxes and

## K. T. SHAH

maintain order. This is a negative, or at least a passive, conception of the state and its functions, which will never satisfy the needs of a community like India. The reaction of this narrow range of public activity is exploitive, not developmental. But if the active outlook of the state in India is to replace its present sluggishness, it can only be when the Government is recast radically in complexion as well as in responsibility.

Even when this organ of public action is reconditioned and reoriented, its direction would be haphazard in the absence of a preconceived plan and co-ordinated activity. It has been the bane of India in the past to consider each problem as though it stood by itself in a watertight compartment. The Industries Commission did not consider the fiscal policy; the Fiscal Commission did not consider the tax system; the Taxation Commission did not consider the land revenue; and the Agricultural Commission did not consider the standard of living, or the problem of population. But all these are essentially connected and mutually interdependent. The solution suggested by each, separately, is bound to be vitiated, however well-meant it may be, when its reaction upon the interdependent parts is overlooked or unconsidered.

Under these circumstances, a comprehensive, co-ordinated plan of national reconstruction is indispensable before any real hope of substantial improvement can be entertained. The plan is needed as much to lay down the trends of rational development of our productive resources, and their just distribution, as to prevent the creation of new vested interests that might possibly prevent its final and effective fruition within a predetermined period.

## *By* P. J. THOMAS

THERE was a general expectation some years ago that industrialization in India would cure the widespread unemployment prevailing in this country; but this has been belied by the experience so far. Industrial development in India has been rather rapid in recent years, especially after 1930; we produce today all our sugar, cement and matches, more than 80 per cent of our cotton cloth and a large part of our iron and steel goods, paper, etc. Nevertheless the total number of persons so far employed in organized industrial establishments is still only about  $1\frac{1}{2}$  million. In case the rest of our requirements are also manufactured in India, another half a million labourers may perhaps be required. But in India, as is well known, the number of unemployed persons runs into tens of millions and nearly every agriculturist is under-employed. Only a small fraction of these would be absorbed in industry. There is thus no indication that industrialization by itself will cure India's unemployment or raise the standard of living of her population. This is because the causes of Indian poverty lie much deeper. They are connected with India's defective economic and social system.

An economic system can only function satisfactorily if it provides for an adequate production of goods and a proper diffusion of spending-power in the community. But production cannot be adequate, unless the distributive basis of the productive system is equitable, unless the productive mechanism as a whole provides for a proper distribution of spending-power in the community. If such a distribution does not take place, the standard of living of the masses will

## P. J. THOMAS

remain low; there will be a paucity of demand for goods and services; therefore industry and trade will remain undeveloped, and unemployment of all kinds will result. This is what has happened in India. As a result there has been poverty and misery among the masses in the country, and industry has to face a stone wall today.

The key to this whole problem is employment. Spending-power must be got in lieu of labour. But employment cannot increase unless there is a growing demand for goods and services, and such demand cannot grow unless a reasonable standard of living is maintained by the people of a country. In India as things stand today, the standard of living of the masses is pitifully low, because they obtain very little of the spending-power of the community, and because there is no adequate employment. But adequate employment cannot be had unless the demand for goods and services increases. It is a vicious circle of the most virulent type.

The following features of the Indian economic system are specially worth noting in this connexion:

- (1) An inefficient productive mechanism, in which the producer is deprived of the fruits of his labour by inequitable methods of credit and marketing.
- (2) An uneconomic use of the annual income which has curtailed employment and kept down the purchasing power of the masses.
- (3) The consequent under-production and under-consumption.

### I. Defects in the Productive System

It is true that agriculture by itself cannot give full employment to the whole of the rural population; but had agricultural production been based on an equitable system of distribution, production would have been more efficient

## THE ECONOMIC BACKGROUND

and employment more ample. As Malthus wrote to Ricardo in 1821: 'From the want of a proper distribution of the actual produce, adequate motives are not furnished to continue production.'

This is quite true today of Indian agriculture. The tiller is usually a tenant; he hires his land from a zamindar or other landholder on terms which, under the inexorable laws of supply and demand—limited land area and unlimited competition between tenants who know no other occupation—involves the giving away of too large a part of his annual produce as rent. From what remains the dues to the money-lender have to be paid, not rarely at unconscionable rates of interest. The produce is usually sold at harvest-time, at low prices and on terms which are generally dictated by the trader, whose hold on the tiller is strong in most parts. In the result, the tiller of the soil obtains only a precarious living from agriculture. Even normally he lives by mortgaging his future labour: the ryot mortgages the crop even before it is raised, and the labourer lives by mortgaging his future labour. This feature runs through the whole gamut of Indian economic life and this has had the most disastrous consequences. A people living from hand to mouth cannot be expected to adopt improved methods. Such a people can hardly satisfy elementary human needs and cannot be expected to have an effective demand for the goods and services required in countries where a reasonable standard of living is maintained. Consequently agriculture has been languishing, the agriculturist has been a poor consumer, the various services remain undeveloped and a perennial under-employment has been possessing the country. This has obviously been to the detriment of other countries as well as India.



## P. J. THOMAS

No doubt, employment in agriculture is largely seasonal, and subsidiary occupations are necessary to make up for it. Here again, the same vicious economic system is at fault. Even more than agriculture, cottage industries depend on middlemen for credit and marketing, and the transactions have been such that too small a share of the fruits of their labour went into the hands of the producers. Even the ingenious Dacca weavers who produced the superb muslins of old obtained only a pittance for their labour, and while the middlemen became wealthy the labourers remained poor. Such unfair relationship still continues between the artisans and middlemen in almost all parts of India. Even the most illiterate worker can balance the extra effort against the increase of income which it brings about. When the return is woefully inadequate, there will be no incentive to work. We may give all kinds of encouragement to manufactures; but if they cannot be placed on more humane social foundations they cannot but languish, as a result of rigid demand.

### II. Defective Use of Income

Even where income is not equitably distributed, the economic life of society can go on fairly satisfactorily, provided the income is properly utilized. A proper utilization of income involves a balance between spending and saving. I use these two terms in a non-technical sense. Normally, income-earners will spend some part of their income on food, clothing, house-room, recreation and other essentials for a normal standard of living, and the rest will be saved; i.e. invested in banks, Government securities or the shares of companies, or directly used for production by the earners themselves. The part spent will go directly to producers of food, clothing and furniture, and to the purveyors of services,

## THE ECONOMIC BACKGROUND

and therefore will immediately reach the pockets of labourers who will in turn use the same for similar purposes. The part saved will also ultimately reach producers (and labourers), seeing that if savings go to banks or, better still, to business concerns, they will be spent largely on labourers and will sooner or later be used for purchasing goods and services. Thus in a well-ordered economy, money will go round automatically and labourers will have employment, at least in normal times; at any rate no perennial unemployment of the type known in India will arise. This is what has been happening in most countries in Western Europe, especially the smaller ones which are not saddled with unstable external relations. The result is that normally there was employment for all; cyclical unemployment indeed used to arise, but it passed away when times improved.

Such has not been the case in India, because the use of income in this country has been very different. On the one hand, there has not been enough spending of the proper kind; and on the other, there has been too much saving of the improper kind. Those who obtained incomes spent more of their money on gold, silver and precious stones and on other luxuries which do not involve a benefit to the ordinary labourer, and less on clothes and furniture and music and books and the many services which give employment to labourers of all grades. Spending on jewellery or precious stones may add to the employment in a small luxury trade which employs only a few persons, but spending on clothes or books or laundry will lead to a widening range of primary and secondary employment and will set a virtuous economic spiral in operation.

While our spending narrowed the scope for employment, our saving straitened it even more severely. Saving could

## P. J. THOMAS

increase employment if the money saved went immediately into productive enterprise. Saving in India, till lately, meant hoarding. It has almost been synonymous with buying gold or jewellery. In the result, India has absorbed an inordinate share of the world's production of gold for a long time, and while private holdings of gold are very meagre even in the most prosperous Western countries, they are fairly common in India even after the copious gold exports of the years after 1931. The thirst for precious stones has also been keen in India; where else in the world can one see such numerous and commodious shops dealing in precious stones and so avidly frequented by customers? The poor peasant and labourer invested his little savings in silver, even as the better-off persons hoarded their bigger savings in gold and precious stones. It was 'liquidity preference' with a vengeance.

No doubt all savers in India have not been equally mad after the yellow metal; some of the wiser ones used their incomes for lending to needy persons. Lending money is a beneficial service, provided it is for productive purposes, and provided the terms are reasonable; but neither of these conditions was fulfilled by the bulk of moneylending transactions in India. Credit has been grossly misused by the agriculturist, because he did not know the proper use of it. He would never repay the debt willingly; therefore the rate of interest had to be high and land had to be mortgaged if any considerable sums were needed. But the courts helped the creditors and they never lost much. On the other hand, many of them have amassed large fortunes.

It must be admitted that even unproductive lending has helped in the circulation of purchasing power in the community. What the labouring classes should have received

## THE ECONOMIC BACKGROUND

as wages was made over to them as loans; but as such loans cannot be repaid except in prosperous seasons, rural indebtedness became a serious problem. If a people cannot live on income already accrued, they will have to mortgage their future incomes, and this is what most people in India have been doing. Even this would not have been possible if some persons had not undertaken the risk of lending to such people.

Some benevolent persons scorned to be usurers but purchased land in the belief that it would help the community. It is true that land gave them only a meagre return on the capital invested (although it brought them social prestige), but it did little good to the community. It would have done some good, if those persons not only became proprietors but engaged themselves in cultivation, by employing the tenants as paid labourers or better still as co-sharers. But certain of the high-caste Hindus considered it beneath their dignity to till the land; working with the hand was unworthy of the twice-born. No doubt some of them lent funds to their tenants ostensibly to help them, but such credit often helped the ryot as the rope supports the hanged man.

In every civilized country, the most enterprising persons engage themselves in productive activity with their own or borrowed capital, and thus the labouring classes are able to get employment. In India, on the other hand, such persons have generally fought shy of productive enterprise and confined themselves to trading and moneylending. Productive enterprises are risky and are dependent on the seasons, but trade, especially commission business, brings profit nearly always and the interest due to the moneylender goes on accumulating even while he is asleep. Especially if 12 per cent interest or even more can be obtained for one's capital

## P. J. THOMAS

from a neighbour who pledges himself and his land, why should one risk one's capital by venturing into agriculture, which is full of risks, or even industry which seldom gives such high return on capital? These wise persons knew what their own interest was, but the national interest suffered severely by this selfish policy. The poor and ignorant cultivator and artisan were left to take all the risks of production, generally with funds borrowed at high rates of interest, and they did what they could. Being unequal to the task they have become impoverished, and under their care agriculture and industry languished. Is it any wonder if under such a system the scope for employment became narrow and the standard of living was kept down to the lowest level?

There were indeed some forces counteracting such tendencies. The pious Hindu thought it his duty to give feasts on certain occasions (although the feeding was generally confined to one's castemen) and distributed alms on other occasions. After a life of accumulation, some of them built temples or established choultries. Such acts give some little relief to the perpetual tendency to concentration of income in a few hands; but they were not calculated to tone down the inequalities of distribution to any appreciable extent.

Islam exerted some influence to counteract the vicious economic forces in operation. Its votaries did not cling to the taboos about manual labour. They saw nothing wrong in enjoying the good things of life and they generally spent more on food and clothing than their Hindu confreres in the country. Further they considered it wrong to take interest on capital and therefore most of them avoided moneylending and invested their savings in trade or agriculture. Their preference for land investment kept the price of

## THE ECONOMIC BACKGROUND

land high in many areas. But they too did not have the experience of large-scale enterprise, and capital formation to any large extent was not possible among them also, owing partly to the nature of their succession laws.

In the East India Company's days, the Government's economic operations were hardly conducive to a proper circulation of purchasing power. Their public finance was largely a one-way transfer. Their 'investments' in cotton textiles were indeed a source of employment to weavers, but their financial operations often denuded the rural parts of spending-power. After 1868, the British Government in India awoke to a deeper sense of obligation to the country and launched a policy of loan expenditure on railways and irrigation works. The loans had to be raised abroad, as there was little liquid capital available for investment at home. What was at first a rill became gradually a mighty river. The first investment on capital works was hardly a crore a year; but in the years just before the world economic crisis of 1929-30, the capital expenditure on the railways alone came annually to the high figure of 41 crores. The outlay on irrigation and civil works also increased. At the same time, private capitalists from Europe opened plantations and trading businesses in India. All this gave rise to a new economic life in the country. Employment increased; towns grew; banks arose; accumulation of liquid capital began. This emboldened many Indian business men, at any rate in Bombay, to venture out into large-scale industry. They first confined themselves to cotton mills. The shyness of Indian capital was gradually overcome and modern capitalism was ushered in. Subsequently, it was nourished by the protective wall raised by the Government after the world war of 1914-18.

## P. J. THOMAS

But such development has affected only small sections of the Indian community, and even now economic life on nearly the old lines is functioning over the greater part of India. Industrial development, although it has been rather rapid in recent times, has only touched the fringe of Indian economic life, and its effect on employment and purchasing power has not been potent. Intellectual life in the country has rapidly advanced; but the standard of life still remains low, and therefore not only the industries, but also the various services, which form a large source of employment in all civilized countries, remain undeveloped in India. The scope for employment in the country, therefore, remains at a low ebb. While I admit that all young men of the so-called middle classes ought not to aspire to black-coated professions, it is undeniable that many more of them could have been employed in business and in the services had the economic system functioning in India been more equitable, i.e. if the productive process had been based on better distribution and if the surplus had been properly utilized. Not only unemployment, but nearly all our economic ills can be traced to this fundamental defect.

### III. The Outcome

The cyclical unemployment in the West is also due to certain inherent defects in the present economic system, but there is a fundamental difference. While in the West the capitalist classes invested their money in productive activity and came face to face with periodical under-consumption, the wiser Indian capitalists adopted the more selfish course of not investing at all; they were perhaps wise, because they avoided the loss involved in producing goods without being able to sell them. But this course was anti-social, because

## THE ECONOMIC BACKGROUND

by their improper use of capital, the other sections of the community have been deprived of possibilities to secure suitable employment. They avoided overproduction of the kind which occurs periodically in Western countries; but a severe underproduction has resulted from the sterilization of capital. Underconsumption is, of course, the final outcome, and this is much more serious, and has come through a process far more injurious than the underconsumption which arises in the West. Underconsumption in the West is only periodic; in India it is perennial. In the West, underconsumption does not affect necessities; here, a large proportion of the people are unable to obtain bare necessities, because our resources are lying untapped or ineffectively tapped. By properly exploiting those resources, consumption of goods will increase and there will be fuller employment. The purchasing power of the masses in this country is severely restricted, and in the result their consumption capacity is the lowest. If consumption does not increase in India, there is little scope for further industrial development—a fact which our industrialists will have to take into account, sooner rather than later.

Thus no stable economic progress is possible without curing the economic system of its inherent defects. Unemployment and underemployment are only symptoms of the failure of this economic system. They cannot be remedied effectively without tackling this fundamental problem. No doubt this is an extremely difficult job, but it will have to be undertaken boldly, if any substantial economic advance in India is to be possible.

The remedy lies in breaking through the vicious circle which has been operating injuriously for long in the economic life of this country. A fairly effective beginning can be



## P. J. THOMAS

made by a carefully devised public works programme; it will set in motion an upward spiral, of increasing purchasing power, rising standards of living, accelerated industrialization and improved agriculture. A time of depression and unemployment is the most suitable for launching such a programme, and in my opinion the immediate post-war period may be opportune, as it is highly probable that a decline in prices and employment will arise then, owing to demobilization and the stoppage of war production. It is hoped that plans for a suitable public works programme will be kept in readiness so that they may be put into operation by public authorities and private concerns in the country immediately after the cessation of hostilities.

## By J. C. KUMARAPPA

INDIA presents such a bewildering variety of economic problems that it is not easy for one steeped in Western economics to appreciate Indian conditions, much less to understand the programme put forward by national leaders. These variations from accepted formulas are largely due to the unique course of Indian history and the standard of values developed as a part of its culture and religion. In this essay an attempt is made to explain Indian problems in the light of such a background, with special reference to the standard of living of the people.

### I. THE STANDARD OF LIFE

Whatever may be the definition of the 'standard of life', it is generally accepted that the major part of the teeming millions of this country is hardly able to procure the mere necessities to eke out even an animal existence, and that there are few civilized countries with such a low standard.

#### *Income per capita*

Many attempts have been made to measure this situation by appraising the national income, and from that to arrive at the *per capita* income and then to compare the results obtained in other countries by a similar process. The latest estimate, *The National Income of British India*, is by Dr V. K. R. V. Rao. His computation of the *per capita* income is Rs. 62 per annum. However useful such calculations may be for certain academic purposes, the picture of conditions

## J. C. KUMARAPPA

they unveil is thoroughly misleading as regards the real circumstances prevailing in rural parts. Naturally, the handicaps under which such calculations are made are many. The scarcity and unreliability of statistics available, the lack of uniformity of treatment, the vast range over which the average is struck, etc., vitiate the conclusions to which one may be led by relying too much on such figures. A theoretical calculation of this type brings the income to about Rs. 5 a month. Even such an income is far too low to ensure a satisfactory balanced diet on a subsistence level, not to mention provision for clothing and shelter.

A more reliable and closer approximation to facts may be obtained by a survey of actual incomes in villages. An average struck from figures collected from over 50 villages of Matar Taluka by the present writer gives an income *per capita* of Rs. 14 per annum.<sup>1</sup> This taluka is in a comparatively prosperous part of Gujarat, which province itself is better-off than many other provinces of India.

Another way of getting a more accurate picture of the income is to work up from actual expenses, as some of the income in agricultural communities is derived from the land direct, and does not figure in terms of money. A calculation based on a survey of over 600 villages of the Central Provinces discloses a *per capita* income of Rs. 12 per annum.<sup>2</sup> This amount will not cover even half the cost of a low subsistence diet. Therefore, even assuming that all the income is used for obtaining food, the people have to remain half-fed at best.

<sup>1</sup> *A Survey of Matar Taluka*, p. 70.

<sup>2</sup> *Report of the C.P. Government Industrial Survey Committee*, Part I, Vol. I, p. 6.

## THE ECONOMIC BACKGROUND

### Why it is Low

Granting that the standard of living is below the subsistence level, we have to probe deeper to ascertain the reasons. It is wrong to attribute low standards in India to the inculcation of ascetic ideals. People go half-starved, not because they desire to be slim but because they cannot get enough to eat. They have no purchasing power to make their demand effective. When the people are industrious and intelligent it is no argument to say that their production is low, or that they are inefficient. We have to look elsewhere for satisfactory reasons to explain why their productivity should be so low.

A person may be willing to work hard, and may be intelligent, but may have no opportunity to occupy himself gainfully, or if he does have employment it may not bring in an adequate return for his labours. The standard of living of an individual under such conditions is bound to be low due to no fault of his. This appears to be the position in our country.

### Lack of Opportunities

Even a cursory glance through the list of imports and exports will reveal the fact that the bulk of our imports are manufactured goods, and the exports are largely raw materials. The process of transforming a raw material into a manufactured article involves employment for the people. When we export raw materials we are creating unemployment for our people by depriving them of the opportunities of work. At the same time, when we import finished goods we employ foreign labour to the exclusion of our own. Applying this reasoning, our foreign trade is an open record of the transfer of our opportunities of employment to foreign countries.

## J. C. KUMARAPPA

How this is directed is a long story. No protection was afforded to struggling infant industries. Railway freight rates are designed so as to encourage the shipment of raw materials from the ports and the transport of finished goods to the interior. Heavy taxes and dues at the source of raw materials, a bad policy in regard to communications, the building of roads and canals, etc., have discouraged the growth of industries. Hardly any research calculated to help the villagers' production has been carried on. Government expenditures have not patronized local production and have set wrong standards of efficiency, leading to large supplies for Government departments being obtained from foreign countries. The educational system was not calculated to help young men to enter industries and commerce as entrepreneurs. It will not be possible within the space at our disposal to go into the details of these false steps, but the above enumeration indicates to the reader the methods which have deprived the people of their birthright. Added to these are the uncertainties of a countryside dependent on the vagaries of the monsoon for its agricultural operations. These fortuitous circumstances have produced the unemployment and underemployment of the people, thus lowering their income.

### Unremunerative Stages

The return that a manufacturer obtains at the various stages in the course of processing the raw material into the finished product varies. In the earlier stages—near the raw material—the return is small, and as the article reaches the consumption stage the gain increases. If all these stages take place in one and the same country, the income of the country, as a whole, will not be affected. The distribution

## THE ECONOMIC BACKGROUND

of wealth may not be uniform, but will adjust and level itself in time. If, on the other hand, these various stages are so separated by political boundaries that the badly-paying earlier stages are in one country and the more remunerative later stages are in another country, without the possibility of settling down to a common level, then we have watertight compartments in which the country undertaking the earlier process of manufacture has to be content with a lower income than the country where the finished goods are produced.

For instance, let us examine a chain of producers working on the basis of cottage units, manufacturing hair-oil from groundnuts. If a farmer with about four acres of cultivable land, which is more than an average holding in India, produces Rs. 100 worth of groundnuts at a cost of Rs. 70 for seeds and land operations, taking five months for the crop, the farmer's income will be Rs. 30. If he is fortunate enough to raise another crop during the year, of wheat, he will have a net income of say Rs. 50 from it. These gains, totalling Rs. 80, will represent his annual income.

If an oil-presser takes Rs. 100 worth of groundnuts and presses out oil, the operation will take him about a month, during which period the upkeep of his bullocks will cost Rs. 10, and he will obtain as a product Rs. 125 worth of oil and Rs. 25 worth of oil-cake. Thus he gets an income of Rs. 40 per month. Where adequate finances are forthcoming to enable the oil-presser to stock sufficient groundnuts for crushing during the whole year he can secure an income of Rs. 500 per year at this rate.

The hair-oil manufacturer can convert this Rs. 125 worth of groundnut oil into scented hair-oil, at a cost of about Rs. 245 for deodorizing, scenting and bottling, in about a month, yielding Rs. 500 worth of such scented oil. This will

## J. C. KUMARAPPA

give him an income of Rs. 130 per month, and with the necessary capital he can get employment throughout the year, netting an income of about Rs. 1,500 annually.

The facts stated above show that owing to the vagaries of the monsoon and the nature of his calling the farmer gets only Rs. 80 per year, while the oil-presser, if he can command sufficient finances, can manage to occupy himself *throughout the year* and obtain an income of Rs. 500 per year; similarly, the manufacturer of hair-oils may gain Rs. 1,500 per year. We notice that as the process comes nearer the consumption stage more capital but less personal labour is needed. This aspect will be even more accentuated if centralized methods are resorted to. As it is, to keep one hair-oil manufacturer engaged right through the year we need about a dozen farmers on the verge of starvation to supply the requisite oil-seeds. Even then, if all were in the same country, in course of time the varying incomes would adjust themselves within a limited range. But if the farmers were in India and the manufacturers in Germany this variation in the income of the different groups would never have the opportunity of readjustment but would lead to increasing divergence resulting in progressive poverty in the former country and accumulated riches in the latter—the raw-material producers being assigned in perpetuity low-income-yielding occupations and the manufacturing, ruling nations reserving to themselves the more profitable avocations. Thus we see the reason for the competition amongst the nations to be the ruling race, and to hold others in bondage as the raw-material producers for themselves. This is the basis of all imperialism, which consigns the less remunerative task of producing raw materials to the subject races, and reserves the more remunerative functions to the rulers. This method of dividing the func-

## THE ECONOMIC BACKGROUND

tions between nations is bound to consign the raw-material producing nations to an economic state of progressively increasing poverty which will ultimately result in the deterioration of the culture of those nations. In the course of the last century, with the growth of industrialization in Europe and America, India has slowly slipped into this lower order. Hence the low share she is getting out of the great wealth the human race is pouring out today. The problem is not one of production but one of a fair method of distributing the gains obtained.

### Change in Demand

India is a country abounding in labour wealth. The people will only find a market for the exchange of their wealth when articles of consumption whose main costs are labour costs are in demand. With the growth of mechanized industries in the West and a drive towards labour-saving devices, the market was flooded with goods in which the labour cost was very low, the major part of the cost being for raw materials, transport, insurance, marketing, and overhead charges. Thus the capitalists established themselves in the markets everywhere, while labour was ousted. In India, with a scarcity of capital and abundance of labour, this situation intensified unemployment and underemployment, when even such labour cost as entered into the cost of the manufactured articles came largely from foreign lands. The only wealth of the masses in India is labour. The market for this labour has been much restricted by the advent of the products of centralized industries in the world markets and the cultivation of a philosophy of multiplicity of wants by the well-directed propaganda of vested interests. In India the satisfaction of wants so created has been directed towards goods imported



## J. C. KUMARAPPA

from abroad by political control. In the absence of a market for the labour wealth of India the purchasing power of the masses has fallen low.

### Money and Credit Economy

Our country has a large internal market for all kinds of goods. If this market had been properly husbanded and directed the people would have had a never-failing demand for their products. In the last century, the growth of money-economy with its monster-child 'Credit' spread its tentacles so far and wide that our internal market has been totally disorganized and captured by foreign interests. For transferring purchasing power, money and credit are unsurpassed. An honest exchange does not consist in such transfers of material values only, but should also include transfers of human and moral values. These last two are not represented in a money transaction. The bargaining power of a seller of perishable bananas or fish is not on a par with that of the buyer, the holder of imperishable gold. The growth of money-exchange has smothered all considerations of equity and justice. As long as the buyer pays the price, nothing further need be said about the transaction. Under these conditions commerce can extend its markets to the uttermost corners of the world, but cannot guarantee an equitable distribution of wealth and values. This unrestricted extension has resulted in the export of raw materials to distant industrial countries and imports of manufactured articles from such far-off manufacturers, with the consequent intensification of unremunerative production in our own land, as noticed in an earlier paragraph.

The old Indian system of distribution was a combination of money and barter exchange, where humane considerations had

## THE ECONOMIC BACKGROUND

a place. Certain artisans, like the carpenter and blacksmith, and menials, like the barber and the sweeper, were guaranteed their subsistence by a payment in kind at the time of harvest in consideration for certain basic services to the community. This system, known as *baluta* or *puddi* or *dan*, is fast disappearing, leaving the former beneficiaries to starve out of existence in the competitive struggle of everyday life.

### II. WHAT IS THE TENDENCY?

Even if the income of the people was low, it would not be a matter for anxiety if the tendency over a long period was showing a steady rise. To be able to observe this tendency we have no adequate statistics prepared at periodical intervals on the same basis and principles. In the absence of such information we are, therefore, thrown back on the common-sense method of proving it. This method is perhaps the most reliable. An increase in the number of millionaires does not necessarily prove the country's prosperity. About 90 per cent of the population lives in villages, and so our inquiry should be directed towards assessing their financial conditions in the past and the present, by actual examination of their assets and social customs. Such a change in their state is well reflected in (a) their houses, (b) their hoarding of gold or investment in ornaments and (c) the carry-over from their old customs.

#### The Evidence

##### (a) Houses and Buildings

Any observer who comes to take stock of the state of the dwelling-houses, public buildings, etc., in the villages will not be long before he notices that most of the substantial buildings are old ones, in bad repair, and that there are

## J. C. KUMARAPPA

hardly any new ones of an ostentatious and ornate type. This reveals that the people were well-off forty or fifty years ago to be able to spend money on such buildings; while the descendants of those very same people are content to live in the dilapidated ruins of the dwellings their forebears had erected. The financial state of the present generation does not allow of even a sufficient margin to keep these buildings in repair.

There are few public buildings, such as dharmashalas, choultries, temples, tanks and schools, which are of recent origin. People have not had the wherewithal to donate such gifts. This is an unmistakable record of the weakening of the financial resources of the people.

### *(b) Ornaments*

Whatever the habits of the urban people in regard to commercial investments may be, the Savings Bank of the rural population still remains the hoarding of gold, or investment in ornaments. Today the village goldsmith is a rarity. Such as still exist sit before the dead embers of their smithy fires to tell a tale of woe as to how within their lifetime they have lost their profession. This fall in the prosperity of the goldsmith is an indicator of the decreased margins of savings amongst the people.

### *(c) Social Customs*

A customary wail against the budget of the villager is that the expenses on social occasions are excessive. No doubt this is true if we take their present scale of income as the norm. This high proportion of social expenses is itself a proof that their income, which was high enough at one time to allow of such expenditures, has now dwindled, making the

## THE ECONOMIC BACKGROUND

ratios between the various items on the budget unreasonable. If a man's income is Rs. 1,000 per annum, and he spends Rs. 100 on marriages, etc., nobody need take up the cudgels to belabour him for extravagance. When the income of the son of such a well-to-do person falls to Rs. 300 per annum, and he still continues to spend the same amount of Rs. 100 on social occasions, he will certainly be open to charges of extravagance. Social customs the world over are very tenacious. People in all lands, even though willing to forgo items on the menu, will cling on to the standards of social expenditures set up by their forefathers. The lag of this item in adjusting itself to decreasing income has created this so-often-criticized disproportion, and provides valuable evidence that the income of the villagers is steadily falling.

The above three items present an indelible record written with the miseries of a people whose income has shrunk from opulence to poverty below subsistence level.

### Competition with the Beasts of Burden

Apart from these long-term evidences we notice that there is a growing tendency for men to compete for the work hitherto done by animals, so that they may earn a meal somehow. Bullock-drawn vehicles are now being replaced by man-power, and horse-tongas by rickshaws. Can these be the signs of prosperity? Indeed the masses have sunk to dire poverty where they would 'fain fill their bellies with the husks that the swine did eat'.

We cannot be blindfolded by the seeming prosperity evidenced by new buildings rapidly rising in suburban areas, nor by the increase in the capital drawn from Indians for working a few industrial concerns, nor by the luxurious lives of city-dwellers. India lives in the villages, and the evidence

## **J. C. KUMARAPPA**

as to the prosperity or poverty of India has to be sought in the villages.

### **III. INDUSTRIALIZATION**

Centralized industries accumulate wealth but distribute it badly. Therefore their proper place is for the exploitation of natural resources on a service basis for the benefit of the producers working decentralized units. For example, we can use centralized units for mining and converting iron ore, for rolling steel bars and sheets, but not for making cart-wheels, which latter is the work of the village wheelwright.

#### **On a Service Basis**

As such industries need considerable Governmental aid in regimenting labour, maintenance of communications, provision of exchange, and control of tariffs, they are best carried on by the Government on a service basis. All public utilities, power production, transport, etc., can be run with great advantage on this basis. Centralized industries must function as an accessory to the industries carried on by the people on a decentralized basis.

#### **Labour Costs**

As we have already mentioned, the labour cost in such industries is low, hence in India they cannot make full use of the labour wealth we possess by industrialization. If we wish to create a market for our plentiful supply of labour we can only do so by decentralized industries. We have to be very sparing in the use of centralized units in our country.

### **IV. AMELIORATIVE MEASURES**

The above discussion in itself contains indications of the ways in which reorganization can take place so as to increase

## THE ECONOMIC BACKGROUND

the wealth of the people, and attention is drawn to some of the items below.

The state should manage forests so as to supply the artisans with the material they need when and how they want it. If the carpenter needs timber, the forests should be so planned as to produce the quality and kind of wood, properly seasoned, at the place where it is wanted.

The mineral wealth of the country should be worked by the state, not for export purposes, but for providing raw materials to be worked up in the vicinity into finished products. As we have already pointed out, trade in raw materials does not bring the highest returns to the people.

Railway rates, tariffs, etc., should be scheduled so as to encourage local manufactures on a cottage basis.

Facilities should be afforded by the state for research and experimentation for the improvement of tools, implements and processes, and an adequate medium should be provided for the dissemination of the information gained. Educational institutions where aspiring young men can equip themselves for production by means of cottage units need to be organized.

Foreign trade should be regulated by the state so as to encourage the export of surplus products and to furnish openings for the people seeking employment.

The evil effects of money-economy should be moderated by a judicious use of barter, and payment in kind. This will entail a certain amount of tax payments being received in kind by the state. Recently Gandhiji has thrown out a suggestion that handspun yarn should be accepted by certain organizations as a medium of exchange.

In many industries, such as tanning, the length of time involved in the process of production calls for adequate

## J. C. KUMARAPPA

financial facilities, without which the tendency to hasten the processes yields goods of inferior quality. Where such finance is called for, arrangements in the form of state aid, loans from regulated *mahajans*, or co-operative help, should be forthcoming.

The measures indicated above are largely state functions, but they can also be carried out by private bodies working on an altruistic basis. The All India Spinners' Association and the All India Village Industries Association represent two such bodies attempting, in spite of all the handicaps of private effort, to reorganize the economic life of the great poverty-stricken masses of our land under the advice and guidance of Gandhiji. The Reports of these Institutions indicate the lines on which they have been working to achieve this end and, at the same time, to usher in a society based on mutual goodwill and understanding, the lack of which in our modern competitive world plunges us periodically headlong into wars of destruction, on a diabolical scale made possible by the advance in present-day methods of production.

## *By* SIR DATAR SINGH

THE standard of living in India was until a few years ago proverbially low. In villages people lived like the men of primitive ages. They wore only a few coarse garments, ate rough and scanty fare, and lived in scattered thatched huts. The fruits of wild shrubs and trees were staple foods. Their time was mostly spent in tribal disputes and warfare. The standard of living in cities was higher than in the villages, though it was much below what is considered normal in Western countries. Barring rich and advanced families, the average citizen lived in an insanitary flat or building. His food, lacking essential vitamins, was definitely insufficient for the healthy growth of his body. By living in unhealthy surroundings, ill-fed and ill-clothed, he was steadily losing his energy and vitality.

It is an interesting study to trace the causes of this low standard of living. By diagnosing the disease one can hope to find the remedial measures. Below are given some of the outstanding causes which are responsible for the present position.

### **Poverty**

The root cause of the low standard of living is the appalling poverty of the people. It is common knowledge that the average income of an Indian is far below that of the inhabitants of Europe and America. In this sub-continent, where thousands of people can barely have one meal a day, it would be too much to expect that they should have any idea about the standard of living. As the means of the people are limited, everything cheap is always in demand,



## SIR DATAR SINGH

cheap wages, cheap labour, cheap cloth and cheap wares.

The question then arises, why are the people so poor in India, which is essentially an agricultural country? Is the soil poor or has it deteriorated? Is it due to an act of God? Certainly not. The rich, vast and fertile lands of India have been the envy of the world. The saffron-growing fields of the Kashmir valley are an instance of the bounteous gifts which Nature has bestowed on India. Why then are the masses writhing in the chill grip of grinding poverty?

### Illiteracy

The plain answer is that it is due to lack of education. The diffusion of education in India has been very slow. While other countries have made rapid progress in education in a very short time and have been able to educate 95 per cent of their people, in India the percentage of the educated has not risen above 10. The result has been that the villagers have remained steeped in old and archaic methods of agriculture. In other countries people were growing two blades in place of one, but the Indian peasant remained where he was. He used the same old plough and the same old harrow. His bullocks, half-famished and bony, could hardly plough land sufficient for his sustenance. He could not follow the scientific methods of agriculture by reason of his illiteracy and ignorance. He could not afford to buy the new and improved agricultural implements because of his traditional poverty. With increase in population, the holdings became attenuated on account of divisions and subdivisions. They ceased to be economic, and the Indian farmer grew to resemble the withered branch of an old tree.

The lot of villagers carrying on cottage industries was

## THE ECONOMIC BACKGROUND

hardly better. The introduction of machinery brought about an industrial revolution, and handmade things could not easily compete with machine-made articles. Illiterate artisans had no notion of the industrial and scientific progress which other countries were making, and their indigenous methods of manufacture became out-of-date. The industrial revolution put the craftsman out of gear. Cottage industries gradually declined, and with them the standard of living sank low.

### Faulty Methods of Education

In cities, schools and colleges were started. For some time educated youths were absorbed in the Government services, but year after year, as the number of educated went on increasing, the avenues of employment became limited. Everybody could not get a Government post. The result was a large intelligentsia, an undigestible intellectual proletariat without any substantial means of livelihood. Parents who had spent much in getting their sons educated were bewildered to find that, for all their education, their sons could not keep a good coat on their backs. Thus no appreciable improvement could be made in the standard of living.

It soon became apparent that the education imparted in schools and colleges did not equip students properly for the ensuing struggles of life. It had serious defects. The educated youths shunned manual work, and did not understand the dignity of labour. They had no industrial training, no education in arts and crafts. The great poets and authors they had studied had certainly awakened their mental powers, but these did not help them in earning their livelihood. As was observed by His Excellency Lord Willingdon in a speech

## SIR DATAR SINGH

delivered at the University Conference of 1934, 'From the point of view of the students it is heart-rending that many young men who have fought their way successfully up the educational ladder and have gained high degrees and distinctions, often in spite of many obstacles and handicaps, are yet unable to find means either of maintaining themselves or of serving their fellow men. From the point of view of the country it is disastrous that the labours and initiative of these young men should be running to waste. Keen and unmerited disappointments accentuated by irksome inactivity are apt to lead high-spirited young men into dangerous and unexpected channels'. The problem of making drastic changes in the educational curricula began to engage and is still engaging the serious attention of our statesmen and politicians. It is realized that unless Indian youths are trained in various arts and industries the pace of progress may be retarded and discontentment may grow.

### **Shyness of Capital**

One reason why large-scale industries could not gain a foothold in India is that capital is very shy. Those who have spare money want to hoard it and do not like to part with it. The benefits accruing from pooling resources and from joint work and labour have not been generally realized, with the result that vast capital is languishing in India which might otherwise have been usefully employed.

### **Growth of Population**

The steady rise in population has greatly affected the standard of living. It is well known that the population of India has doubled within the last few decades. It is now about four hundred millions. The long spell of peace, the

## THE ECONOMIC BACKGROUND

high birth-rate, and modern scientific discoveries for fighting epidemics and infectious diseases have contributed towards this phenomenal rise. But multiplication in population without enhancement of the sources of income has the natural effect of reducing the standard of living. Where four instead of two persons share the same income the level of income is sure to fall.

All the above circumstances taken together brought about an unfortunate state of affairs. The struggle for existence became keen. Hundreds of B.A.s and M.A.s competed for jobs carrying a salary of Rs. 30 or Rs. 40 a month. Mr Vishnu Sahai, I.C.S., a Registrar of Co-operative Societies, in evidence before the United Provinces Unemployment Committee stated that he got several applications from B.A.s for a clerical post on a salary of Rs. 20 a month.

### Ameliorative Measures Taken

Realizing this state of affairs the Government introduced several beneficial measures. Vast canal projects and colonization schemes were initiated. The waters of several large rivers which had previously run to waste were harnessed. Huge dams were constructed with masterly engineering skill. From the Sukkur Barrage, the Upper Chenab, the Lower Bari Doab and several other canals millions of acres of arid land have been brought under cultivation. Hundreds and thousands of people have taken to agriculture and are making a good living. Scores of new cities, towns and villages have sprung up. Great new markets for the purchase and sale of commodities have come into existence, and have given employment to thousands of people. Their income has substantially increased and with it the standard of living has swung up.

## SIR DATAR SINGH

In nearly all provinces measures have been taken to remove agricultural indebtedness, and sincere attempts are being made to improve the condition of the peasantry. Departments of Agriculture have been set up to make landlords and tenants understand new scientific methods of agriculture, and intense propaganda for rural uplift has been set afoot. Shops for the sale of better implements of agriculture at cheap rates have been opened and are within the reach of all. The advantages of sowing good seeds, of scientific farming and of rearing a good breed of cattle are frequently impressed upon those interested in agriculture. Every encouragement is given to those who work energetically for the improvement of their farms and produce. Research institutes and agricultural colleges have been started, which have benefited the people to a great extent and have undoubtedly contributed towards the better living of a substantial majority.

Within the last few years, especially since the end of the Great War of 1914-18, many new factories and workshops have come into existence. One great lesson of the last war was that industrial India would be of enormous help to England in the hour of her trial. Many new industries, for example the textile and sugar mills, have been successful, and their large profits have encouraged industrialization. Technicians and experts were in great demand, for trained labour was indispensable for the new industries. Many people went abroad for technical training, and saw for themselves the gigantic progress which other countries had made. They imbibed new ideas and felt keenly the vast difference between the standard of living of persons living in those countries and that of their countrymen in India. They brought new standards and ideals back with them. Buildings of ultra-modern design began to be constructed.

## THE ECONOMIC BACKGROUND

A new emphasis was laid on sanitation and hygiene. In great cities like Bombay and Calcutta, Improvement Trusts were formed to make those cities better and healthier, and many modern housing and drainage schemes were carried out. An upward tendency in the standard of living became noticeable everywhere.

In the sphere of education several ambitious schemes have been set afoot. Vigorous efforts have been made for the education of the masses, and are still being made. Numerous schools have been started in towns and villages, and in many provinces compulsory education has been introduced. New ideas of progress have begun to permeate the hearts of the people, and the country is pulsating with new life.

These measures account for the gradual ascent in the standard of living.

### Suggestions for Improvement

But the progress so far achieved leaves India's standard of living far below the normal. Vigorous efforts are necessary to raise it still further.

The first thing to do is to reform and reorganize the system of school and college education, which requires thorough overhauling. The salvation of India lies in promoting her industries. It is absolutely necessary that boys should be given training in handicrafts and industries during their educational career. The curricula of schools and colleges must be transformed, and vocational training should become the essence of education. Let students be taught in their own vernaculars till they pass the sixth or seventh primary class. By that time they will have acquired sufficient knowledge of the three R's and

## SIR DATAR SINGH

their faculty of understanding will have developed to some extent. From the sixth or seventh primary class right up to the end of the college career industrial education and training must form a compulsory part of education. Students should be trained in very simple small-scale industries in the beginning, and more complicated processes introduced progressively. For instance, in some countries, to start with, students are given lessons in the making of shuttle-cocks, cardboard boxes, sports nets, carpentry, smithy work, etc. By the time a student finishes his school career he knows several crafts. He may join an industrial concern or may start an independent industry. If he joins an industrial concern he will be welcome as he knows the job well, and if he starts his own work, he will be able to earn his livelihood. Training in more technical processes should be given to students as they mount the educational ladder. There are of course some industrial and arts schools in India, but they are much below the standard to be desired. Too much stress is laid on theory, and the practical side is mostly neglected. Few opportunities are given for the handling of tools and implements, with the result that when students complete their academic career they are theorists rather than practical craftsmen. Few workshops will admit them and business men can ill afford to train youngsters at their own expense. Unless industrial training is implemented by practice it is of no avail, and it is well said that an ounce of practice is better than a ton of theory.

To train men for large-scale industries arrangements will have to be made with the leading industrial workshops and factories. The students can be given practical lessons by their own teachers in the technique of a particular industry. For instance, boys who are preparing to enter the steel

## THE ECONOMIC BACKGROUND

industry may be sent to the Tata workshops at Jamshedpur, and those who are interested in textiles may be sent to mills at Ahmedabad or Madras. If the schools and colleges are remodelled on the lines suggested, there is every hope that India's industries will improve and expand rapidly.

### Conditions Necessary for Economic Progress

There are five conditions for the success of industry in a country: (1) Technical education, (2) Financial help, (3) Cheap motive power, (4) Cheap transport, and (5) Protection.

The subject of technical education has been discussed already. Financial help is the soul of every industry. It may best be secured (*a*) by starting joint-stock banks in every town, which will be in a position to give long- and short-term credit facilities to local industries; (*b*) by the raising of Government loans for industrial purposes; (*c*) by the starting of private industrial concerns with Government subsidies.

Cheap electricity and gas are the sinews of industry. In many foreign countries gas and electricity are available in the remotest villages at cheap rates. In India there are many waterfalls which, harnessed, would generate millions of additional horse-power.

Cheap transport can be secured by building many more metalled roads and by encouraging the motor and fuel industries.

Small landholders have special difficulties in improving their standard of living. The necessities of life have increased and their income is insufficient to provide them. They should supplement their income by taking up cottage industries. Their spare time can be utilized in bee-keeping, cattle-rearing and dairy-farming, and for a small investment they can add considerably to their income.



## SIR DATAR SINGH

There are still vast tracts of waste land which can be brought under cultivation by the construction of canals. It is well known that Hissar and Rohtak have been in the grip of famine on account of long drought. By the construction of perennial canals and by wisely-planned colonization, many hungry mouths could be fed. The fear of insecurity and precarious living would disappear, and with ordered progress the standard of living would rise.

The diffusion of education, the promotion of industries and the resulting increase in income would go a great way towards raising the standard of living of the masses. Most of the old towns and cities require remodelling with more parks and gardens, extended streets and lanes, sanitary tenements and houses. The villages also require replanning.

The task is long and arduous, and the best results can be obtained by co-operation between the Government and the public. An improved standard of living is, however, a healthy sign of the physical and intellectual development of the people, and a worthy goal for any nation to aim at.

## By SIR JEHANGIR COYAJEE

THERE are countries with regard to which a propitious destiny seems to have ordained that they should have ample time and successive periods for solving their political, social and economic problems. England is the country that has been particularly favoured in this respect. In her case, the political and industrial revolutions were separated by an entire century; while, in between these two, much progress was made in the sphere of agricultural development. In the case of some other countries, however, the break-up of the old order and the progress towards modern ideals takes place simultaneously in the political, economic and social spheres. The difficulties of the formation of proper objectives and of wise planning in each of these spheres are greatly increased by such an accumulation of tasks. India, it need hardly be said, forms a notable example of such arrested development in various directions.

Confining ourselves here to the investigation of a sound economic policy, we have, in the first place, to consider what should be the ultimate object or goal of such a policy. That object has been differently envisaged by leading economic authorities. It has been described by some as the maximization of the national dividend, by others as maximum prosperity, by still others as the highest possible level of employment. We shall not be far wrong, however, if we interpret it as a high standard of living; because that concept implies not merely a large national income but its proper distribution and wise utilization.

## SIR JEHANGIR COYAJEE

### A Rising Standard of Living

That the standard of living in India has been rising slowly but steadily, for many years, can scarcely be disputed. We shall notice presently the factors that have been acting on that standard favourably and unfavourably. But there are unmistakable indications that, on the balance, there has been progress. The growing production and imports of articles of luxury and their steady penetration into the rural areas is the best proof of this. It is also evidenced by the steady rise in the national income per head. Quite a number of attempts have been made during the last seventy years to compute the income per head in India on various lines and with various objects. It is a matter of satisfaction that, with successive computations, its figure has tended to mount up. No doubt the increasing national dividend would have had even happier effects with a better distribution and wiser expenditure of wealth—with a desirable change in the economic outlook. But, even as things are, there can be no reasonable doubt regarding the rise in the standard of living.

It is an economic truism that any substantial and lasting improvement in the standard of life must be based upon a proportionate growth of national income and production; and there is ample evidence of the expansion of production in India in the sphere of manufacturing industries as well as in that of agriculture. Witness the great expansion of our textile industries, our sugar industry, our cement industry which have, each in its line, achieved the ideal of self-sufficiency in India. Witness also the rise and progress of the iron and steel industry, which has placed Ahmedpur on the map of the world as one of the leading centres of production. Nor can we neglect in this connexion the striking and rapid industrial evolution of Indian States, like Mysore. Surely

## THE ECONOMIC BACKGROUND

such developments could not have failed to expand the national income of India. They must also have had important and favourable repercussions upon the income and standard of living in a great many rural districts. The growth and expansion of new industrial centres like Jamshedpur and Ahmedabad, like Cawnpore and Nagpur, is bound to increase the income of many rural areas and to introduce better notions and higher standards of comfort in them. Improvements in our rural economy, too, have contributed their share to this growth of the national income. Let us give their due to such important lines of progress as the expansion of the total area irrigated by ten million acres in a single decade, and the policy of crop-improvement which has increased the yield of nearly twenty million acres.

### Some Unfavourable Influences

But the beneficent influence of the factors referred to above is neutralized, to a considerable extent, by certain unfavourable influences. Amongst these latter, easily the first place is occupied by the rapidly growing pressure of an uncontrolled growth of population upon the means of subsistence. Recently some economists have attempted to describe the condition of India as that of 'relative over-population'. But it is obvious that even if, in a future condition or ideal economic development, India can support a larger population, under existing circumstances the rapid increase of numbers is doing immense harm. It leads directly to increased fragmentation of holdings, to a steady deterioration of agriculture and to the multiplication of landless peasantry. An Indian economist, Dr Radha Kamal Mukerjee, who has made a special study of both land problems and the population problem, has expressed his conviction that 'with agriculture on a steep

## SIR JEHANGIR COYAJEE

incline, pushed down by constant population increase and recurrent droughts, India's industry and trade cannot contribute usefully to the solution of her poverty and economic backwardness'. The great density of population in many parts of India tells its own tale. We are witnessing a race between the growth of population and the rise of the standard of living in which the former presses the latter very hard indeed.

Among other contributory causes of our low standard of living might be emphasized mistaken standards of consumption on the part of both the wealthy and the poor. Taken in the mass it is the extravagance of the poor on ceremonial occasions and in litigation that costs the country more. The Royal Commission on Agriculture has also drawn particular attention to another aspect of error in consumption—malnutrition due to unwise choice of dietary. It leads to more money being spent on a less nourishing standard of consumption.

In the above discussion attention has been drawn to the main factors in the improvement of our standard of living. We have to plan our population on both the quantitative and qualitative aspects, to improve the distribution of wealth and the standards of consumption; to increase the national income alike by industrial progress and agricultural development. It has to be, obviously, a many-sided and properly co-ordinated process of evolution; for no one line of progress is adequate by itself to raise the standard of living materially and to solve the problem of poverty in India.

### Importance of Agricultural Development

There are some writers to whom the problem of India is essentially an industrial one, who attach an exaggerated

## THE ECONOMIC BACKGROUND

importance to industrialization, and who would employ hot-house methods to push it forward at any cost. The better view would seem to be that we should aim at a well-balanced economy as efficient as possible both on the agricultural and on the manufacturing side. These two sides are essentially supplementary in character, and notable success cannot be achieved in either unless there is simultaneous progress in the other. Improvement in rural economy is required to increase the purchasing power for the products of industry, as well as to permit the necessary exodus of labour from rural areas to industrial centres. Agricultural progress can act directly and beneficially so as to raise the standard of living in this great agricultural sub-continent. With the population of our country increasing at the present rate, a considerable development of agriculture will be needed merely to feed 'the teeming millions'.

Those who profess to find the welfare of India in a predominant industrialization are either led away by the examples of England and America or have been repelled by the difficulties in the way of rural reconstruction and agricultural advance. True it is, as has been well pointed out by Professor Kale, that 'no economic revolution is to be expected in the rural areas, and there is no short cut to our goal'. But where a task of primary national importance has to be achieved we may not shrink from arduous or prolonged efforts. As the pivot of rural reconstruction we have to reshape the primary co-operative society, enlarging its functions gradually and tentatively. At all costs we must have a much enlarged and improved co-operative system, with an adequate measure of state guidance and state help. We have to improve the systems of land tenure and to rouse the Indian landlord to undertake his true role—that of the pioneer of

## SIR JEHANGIR COYAJEE

capitalistic agriculture. These are but a few among the numerous aspects of rationalized agriculture; and hence we have to multiply our resources for the work by concentrating them on preliminary experiments at the most favourable points.

As regards the too-tempting examples of England and America in the sphere of industrialization, neither our traditions and aptitudes nor our equipment and requirements make them suitable for us. A far better model for the development of India is to be found in France with its well-balanced development in manufacturing industries and agriculture. As economic historians have noted, development on such lines forms 'a valuable insurance policy against unsettled times and has decided compensations in the long run'.

### After-War Problems of Industrialization

Coming to the equally important topic of industrialization, it is to be emphasized that while the present world war is sure to give a considerable impetus to our manufacturing progress it raises a great number of new and important problems. Without aspiring to a detailed foreknowledge of the world conditions at the close of the present war, we might assume that the economic world will be in something like the same disorder as manifested itself after the first world war, but that its maladies will be even graver and also more dangerous. Currencies will be in utter confusion, economic warfare more embittered, and enough of the totalitarian spirit will be left in the world to make abrupt decisions and sudden changes of economic policy on the part of individual states fairly frequent. Under such circumstances *flexibility* of economic policy is a matter of

## THE ECONOMIC BACKGROUND

the first importance for India. Such a policy should find its expression mainly in the development of the key industries and in the steady expansion of vocational education. The 'Bevin boys' scheme forms a welcome precedent and will have to be continued and enlarged, if possible. With these two essential conditions fulfilled, India will be in a position to vary and expand her industrial policy as required by the changing conditions of the economic world.

What the exact lines of the industrial policy of India are going to be will depend on whether the Empire is to work out a common policy or whether India is to strike out a line of her own. There are advantages and drawbacks peculiar to each of these courses; though, on the whole, common action is the more desirable, provided that all parties observe the rules of the game. With a common economic policy for the Empire, or even with co-operation between India and England, the industrialization of our country will be very rapid in many directions. Access to the great capital markets will be greatly facilitated; and the very large amounts necessary for a thorough industrialization as well as a sound agricultural development may be placed at our disposal. Following the same policy, we can count upon obtaining managerial skill and technical guidance in ample measure. The 'Bevin boys' project might be expanded so as to meet our full requirements of trained industrial labour. As the demands of the Commonwealth members come to be pooled, a large number of metallurgical and other industries could be developed which would otherwise have to remain long on the waiting list. Moreover, the support of the Empire countries would be of great value against economic manœuvres directed by foreign countries against the interests of India. At the same time, allowance will have to be made for occasional



## SIR JEHANGIR COYAJEE

clashes of interests between the countries thus co-operating; and some consequent limitations and restrictions upon the full programme of the industrial development of India are inevitable.

If, on the other hand, India follows an autonomous industrial policy she might, perhaps, in the very long run, gratify her full aspirations after industrialization. But the pace of development will be much slower, and valuable opportunities will be lost—especially in the post-war period—which may never offer themselves again. Each new experiment in industrialization will have to be carried out entirely at our own risk and charge. India still remembers the short lives of many industries which were started during the period of the last world war.

The country will have to decide between these two alternative policies. Or, perhaps, a compromise might be arranged by which India might grant a preference to England as regards the products of those industries for developing which our country is not yet prepared. It could be so arranged that the circle of such preference might grow narrower with the gradual advance of India in such lines. In return for such preference India might receive assistance in other lines of industrialization.

### **Planning the Industrialization**

But, even apart from these after-war problems, far-sighted economic planning in the sphere of industry is of the highest national importance and will have to be adopted. In fact all wise economic organization consists in distributing the resources and factors of production at one's disposal so as to yield the best results; and this is of the essence of planning, whether in the case of the state or of the individual. Instead

## THE ECONOMIC BACKGROUND

of considering in casual succession the problems of the promotion or stimulation of individual industries, we have to envisage the full programme of national industrialization in the light of our resources and equipment on the one hand, and our objects and aspirations on the other. In order to obtain anything like a clear perspective of the main lines of planned industrialization in India, it is necessary to consider the chief tasks devolving under it on the state and on the industrialists of the country. Here there is space only to supply a few examples and illustrations. Obviously, it is for the state to inaugurate a general survey of industrial resources and potential lines of progress. This survey will form the necessary basis for any planning, and the essential condition of the efficient functioning of an Economic Council or Councils working out the plan. If, with the garnering of experience and the development of suitable personnel, it becomes advisable to introduce institutions like the National Board of Industries and the National Investment Board to regulate investment, here again the initiative and leadership will rest with the state, though the co-operation of experts and industrialists will be highly desirable and necessary. The same statement will hold good in the solution of the important problems of fuel and power. Government agency will also be to the fore in the formation of Industrial Banks and in the raising of rural reconstruction loans, though here the state action will have to receive the support of our banking experts. While we are dealing with the subject of state action in the sphere of economic planning, it might be noted that the existing provinces cannot be taken as forming the most suitable economic units; and hence it will be necessary to divide the country, for the purpose in hand, into more convenient regions of economic control and development.

## SIR JEHANGIR COYAJEE

We might now turn to some important elements in economic planning as to which the lead must be taken by Indian industrialists—their efforts being properly backed up by Government policies of a suitable character. For example, in improving the present haphazard localization of industry the industrialists must be to the fore, while the state will help by a suitable railway rates policy which will be properly adjusted to the changing phases of a progressive industrialization. We may, by a just gradation, pass on to tasks and spheres in which the industrialist has to forge his own fortunes and be the master of his own fate. Thus while legislation has already improved the managing agency system to some extent, the task of bringing that system to the high pitch of efficiency of which it is capable lies pre-eminently in the sphere of the Indian entrepreneur. It is for him, too, to bring up the industrial units in the country to the optimum size. It would appear that while in determining the proper unit of business control there is much to be said for concentration, in fixing the size of the unit of production all the economies are not on the side of the larger unit. It would also be a material contribution to industrial planning in India, if the Indian industrialist got rid of his isolationist attitude, which so often leads to unhealthy internal competition. He might learn with advantage to co-operate with others of his class, in purchasing raw materials at home and in marketing Indian products abroad, as well as in recruiting and organizing a well-trained and contented labour force. It remains to be added that, in a programme of industrial planning for India, there should be a correct perspective of the large-scale and small-scale industries—the latter being specially suited to the national genius, and particularly needed in the rural areas to supply subsidiary

## THE ECONOMIC BACKGROUND

occupations. They have a great part to play in the industrial development of this country.

### The Role of Protection

With the advent of a system of planned economic progress, protectionism is sure to undergo a considerable change as regards its significance and criteria. In fact, in an important sense, protection will be subsumed into economic planning. Even from its beginning, protection has been the weapon of a half-conscious economic planning, since it was meant to divert national resources from the existing industries to others which were assumed to be more productive. This is the avowed object of economic planning, which aims at distributing the sum total of national resources between industries, new and old, so as to yield the best results. In the past it has been objected to the system of discriminating protection prevailing in India, that it imposes a few conditions on the extension of tariff assistance. But it is obvious that in a regime of planned economy such conditions and criteria are sure to be multiplied. For under it the claims of any particular industry to protection will have to be considered, in relation not only to the whole plan of industrialization and agricultural development, but in relation to a well-conceived policy of the proper distribution and consumption of wealth.

Such is the vision—or rather, a glimpse—of the many-sided and properly co-ordinated development of India on the economic side, which might result in a highly gratifying development of the national standard of living. The realization of that vision will require decades of strenuous and unrelenting exertions guided by wise, well-informed and far-sighted leadership.











